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DIRECTORATE OF
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WEEKLY SUMMARY

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technol-

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INDIA-PAKISTAN: THE SIMLA AGREEMENT

25X1 In five days of meetings at Simla, the former summer capital of British India, Prime Minister Gandhi and President Bhutto made progress on a number of problems. They were unable, however, to reach agreement on the two most difficult issues—the status of Kashmir and the repatriation of prisoners.

The most important tangible result of the agreement—announced on 3 July—will be the withdrawal of troops behind the international border except in Kashmir. By agreeing to the withdrawal, the Indians, who hold about 45 times as much enemy territory as the Pakistanis, gave up one of their main bargaining points. On the other hand, both sides had assumed that such a withdrawal would eventually take place.



Some other provisions of the agreement, such as taking steps to resume trade, communications, and overflights, are not a concession by either side, but in agreeing to work on these problems without an over-all settlement, Mrs. Gandhi did back down from her demand that all issues be settled in a single package.

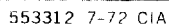
Pakistani concessions were all intangible. Both by entering the talks and by agreeing to bilateral resolution of all Indo-Pakistani problems, Bhutto acquiesced in Indian insistence that no third powers—including the UN—be involved in any future negotiations. Although Bhutto has taken pains to deny it, the agreement to solve disputes peacefully comes close to India's demand for a no-war pact.

The Simla agreement on first glance seems more favorable to Pakistan than to India, but Mrs. Gandhi presumably calculated that some improvement in relations was worth concessions. With 93,000 Pakistani prisoners still in Indian hands, New Delhi may believe it has enough leverage to obtain concessions on the Kashmir problem.

The Simla agreement temporarily froze the status of Kashmir without prejudice to the claims of either side, but this gave the present line of control more official status and left the Indians in possession of most of the strategic points they want along the cease-fire line. Ultimately, the Indians probably want Pakistan to give up its claim to the part of Kashmir that India has held since 1949, but such a concession would be difficult for the Pakistanis. The agreement also calls for the prisoner-of-war issue to be taken up later, possibly indicating further delay by the Indians in turning prisoners over to Bangladesh for war crimes trials. There is no evidence, however, that Mrs. Gandhi assured Bhutto that no prisoners of war would be transferred to Dacca.

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INDOCHINA

SOUTH VIETNAMESE ADVANCE

Counter-attacking South Vietnamese forces in Quang Tri Province have entered portions of the provincial capital, and other government elements are advancing on the city. Government troops have retaken Hai Lang and Mai Linh district towns. Enemy resistance in the first week of the counter-offensive has been moderate, consisting of infantry, tank, and artillery assaults against the advancing South Vietnamese Marine, Airborne, and territorial units. In the last few days, resistance has slackened and government forces are now encountering primarily artillery attacks.

To the south of Quang Tri, enemy forces have increased their harassment of Hue. The Communists have been conducting heavy artillery attacks against Hue for the past week—the first such attacks against this northern capital since the offensive began. Communist forces also overran a government outpost southwest of the city late last week, but the outpost was recaptured on 5 July. Despite this activity in and around Hue, however, the Communists do not seem to be making any concerted artillery or ground effort to neutralize or destroy the government's defensive positions outside the city.

the Communists will not be able to launch a large-scale attack against Hue until the rainy season next fall and will concentrate in the meantime on shelling and sapper actions against the city.

Action continues light elsewhere in the country. Communist forces have pulled back from the Kontum Pass on Route 14, and government convoys, for the first time since the pass was blocked in late April, have moved unimpeded between Kontum and Pleiku. The Communists have also pulled back from Phu My District in Binh Dinh Province, which has been subject to enemy harassment for the past several weeks. In

Military Region 3, the Phuoc Long Province capital and surrounding areas have come under stepped up harassment during the last week, but the situation remains essentially unchanged in the remainder of the region. Sporadic enemy action continues in scattered areas of the Mekong Delta.

New Effort at Political Coalition

Several of South Vietnam's largest nationalist parties appear to be making some headway toward setting up a political alliance that would be independent of the Thieu government. Four parties reportedly have agreed on the structure of the new organization and are negotiating with other groups in an attempt to broaden the alliance. The leaders of all these parties have cooperated with President Thieu in the past, but they have been soured by his failure to give them much power. They reportedly now believe that there may be an early agreement to end the fighting and that, in such a situation, a broad-based political grouping not identified with Thieu would have an important role.

Collectively, these parties would be a significant political force, and their leaders seem to be making a serious effort to join together. In the past, however, South Vietnamese political combinations of this sort have invariably started with an exchange of promises to cooperate and have then broken down because the leaders refused to subordinate their personal and party interests to a common policy. The leaders of the parties in the organization reportedly must agree on all decisions, a factor that seems likely to hamper the alliance's effectiveness and casts doubt on its staying power.

HANOI STANDS PAT

Initial North Vietnamese reaction to President Nixon's announcement of a resumption of the Paris talks gave no hint of a change in the

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Communist negotiating position. A statement issued by Hanoi's delegation in Paris asserted the US had been "forced" to return to the negotiating table by world opinion, which was "demanding" that the US respond "constructively" to the Viet Cong's seven points. Hanoi also accused President Nixon of trying to "fool" the American people in an election year and of using "dirty tricks" to convince them that resumption of the talks was the result of US diplomacy. President Nixon, the Vietnamese Communists said, had "demonstrated" his determination to keep residual forces in Vietnam and to continue bombing and mining North Vietnam and supporting the Saigon regime. His negotiating proposal of 8 May was dismissed as an effort to induce the Communists to surrender "voluntarily" to Saigon.

munists' ability to fight "protractedly" if necessary and took a swipe at "US psychological warfare machinery" for promoting "arguments" to the contrary. The regime may be overplaying battlefield successes in an effort to avert speculation that it is being forced back to the negotiating table. Its efforts to justify its military strategy may also be an indication that some elements in the party have become critical of the offensive.

It is clear that the top leaders do not intend to brook any wavering. There are indications that recent pressures have strengthened the hand of the regime's security officials who are responsible for enforcing discipline throughout the party and society. One bellwether has been the emergence over the past few months of Tran Quoc Hoan, the heretofore obscure minister of public security. A hard liner with a reputation as the regime's "enforcer," Hoan has on two recent occasions lectured the party and the public on the need for tighter discipline and has threatened stronger countermeasures against those who fail to conform. Although Hoan's new prominence clearly is linked to the tightening of discipline within the society as a whole, it undoubtedly reflects the mood of the leadership itself.]

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☐ The North Vietnamese have buttressed their tough talk on negotiations with lengthy defenses of their military strategy. A series of articles published in the army newspaper last weekend applauded the performance of main force units in the offensive and claimed that the "southern" forces have already defeated "every strategic objective of Nixon." It also reaffirmed the Com-

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MOSCOW WEIGHS IN

☐ Since President Podgorny's visit to North Vietnam, the Soviets have been devoting increased propaganda attention to developments in Vietnam, suggesting that the USSR sees a need to correct the imbalance in its public posture resulting from its preoccupation with Soviet-US summitry. The propaganda, however, is similar to that observed prior to the pre-summit standdown and still maintains that negotiations provide the best way of resolving the war.

Cuban Premier Castro's visit to the USSR this week was the occasion for the

most authoritative Soviet pronouncements. The Cubans were almost as upset as Hanoi when the USSR decided to go ahead with the summit after the US interdicted North Vietnamese ports, and the rhetoric was doubtless aimed at reassuring them as well as the North Vietnamese. The communique issued on 6 July contains the most authoritative expression of support for Hanoi's political demands since Podgorny's visit to North Vietnam last October, including a specific call for an end to US support for Thieu and an endorsement of the separate peace proposals of all the Indo-chinese Communists.]

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Belt-tightening But No Squeeze

[North Vietnam's cooperatives have just finished harvesting the spring rice crop, which normally accounts for one third of the annual output. Judging from the favorable weather conditions of the past few months, it is likely to have been a good harvest, though not a record one due to the impact of last year's flooding. In any case, Hanoi has not so far found it necessary to institute any drastic measures to cope with the food situation in the wake of the denial of seaborne food imports from abroad. Most markets in Hanoi are still open although activity has declined because of the evacuations. Food is not as plentiful as before, but there are no severe shortages. Official prices and rations are unchanged. Food supplies from the current harvest should be sufficient to last nearly until the next harvest in October-November, although some belt-tightening or drawdowns of reserve stocks cannot be ruled out.]

[The North Vietnamese have taken steps to funnel as much rice as possible into government distribution channels as a means of controlling prices and the allocation of stocks. Patriotic appeals urge that any surplus beyond the normal production obligation be sold to the state, and continuous warnings have been issued against excessive consumption, profiteering, or abuses of the rationing system. While the regime is stressing the voluntary nature of these strictures, the new policy amounts to a temporary suspension of 1970 decree that gave peasants more freedom to dispose of surpluses through personal consumption or sales on the free market.]

LAOS: THE COMMUNISTS HOLD ON

[Enemy forces in south Laos are continuing to resist the government's campaign to dislodge them from the Khong Sedone area. Small Communist units continue to launch daily probes against government forces, and enemy gunners

east of the Sedone River regularly shell Lao Army positions in the town itself. At least two North Vietnamese battalions are still dug in north and northeast of Khong Sedone, and there are signs of a sizable enemy build-up and resupply effort in the same area. Elsewhere in the south, government forces east and northeast of Pakse are for the most part maintaining their positions.]

[In north Laos, the military situation remains actually unchanged. Bad weather continues to limit air strikes and supply drops in support of irregular forces, who have made scant progress in their effort to seize key high-ground positions southwest of the Plaine des Jarres. Four fresh irregular battalions, totaling 1,250 troops, were airlifted into Long Tieng on 1 July to assist in the operation to dislodge the Communists from the hilltop at Phou Pha Sai.]

Leaning Forward on Talks

[Prime Minister Souvanna has sent a message to Lao Communist leader Souphanouvong proposing the resumption of preliminary discussions about peace talks, which have been suspended since last August. The text of the message is not yet available, but Souvanna has said publicly that he requested an emissary be sent to Vientiane as soon as possible.]

[The Lao Communists may be receptive to Souvanna's proposal. Following the end of a conference on 24 June at Sam Neua between the Pathet Lao and the "Patriotic Neutralists," the Communists issued a statement pledging support for seeking "every possible means" to continue the talks between the Pathet Lao and Souvanna. Nevertheless, there is no guarantee that preliminary talks would be any more fruitful than they have been in the past. The statement on 24 June, for example, sticks to the line that there can be no negotiations on a settlement until US bombing ends.]

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SHORING UP THE ECONOMY IN CAMBODIA

[Prospects for retention of the stabilization reforms introduced last October significantly improved after the government was persuaded that the modifications under consideration would cost it the support of the International Monetary Fund and would result in the withholding of contributions by donors to the multinational Exchange Support Fund. Pressures from the latter group forced Commerce Minister Kang Keng to label proposed new import controls an "emergency measure" designed only to stem speculative drains on the country's meager foreign exchange reserves. With President Lon Nol's concurrence, the Commerce Minister has also agreed to consult with both groups on an appropriate permanent system for foreign exchange management.]

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[The permanent system ultimately agreed upon almost certainly will exclude the highly restrictive import controls that the minister of commerce has tried to put into effect. The controls were introduced during a period of rapid depreciation in the exchange value of the riel on the pretext that such restrictions were necessary during wartime. In fact, however, the move was designed at least in part to increase the opportunities for graft. It restored to the Ministry of Commerce a role in processing import applications—a role assumed by the commercial banks under the stabilization reforms.]

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The Present Outlook for Negotiations

[Although Phnom Penh's rumor mills recently have been contending that some sort of cease-fire is imminent, there are no signs that Sihanouk or the Khmer Communists have any fresh interest in negotiations with the Lon Nol regime. In a statement broadcast by Peking radio on 28 June, Sihanouk's "government" rejected the idea of a cease-fire, claiming that it would

only serve to divide Cambodia and perpetuate Lon Nol in power. In addition, during his current swing through several East European and African countries, Sihanouk again publicly stated that he wants no part of any "compromise" with Phnom Penh.]

[In view of Sihanouk's anomalous position in the Communist camp, his opposition to a cease-fire does not necessarily reflect the views of his allies. His comments do indicate, however, that if the Communists are moving toward accepting a cease-fire, they have not yet bothered to bring Sihanouk into line. An additional complication is that, in contrast to Laos or Vietnam, there is no negotiating forum, institutional arrangement, or even publicly recorded political position that provides a common ground for negotiations between Sihanouk and Lon Nol. Sihanouk still maintains that he was unlawfully deposed by Lon Nol, and he seeks a restoration to power rather than a new political arrangement.]

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[Nonetheless, Sihanouk must recognize that eventually he must reach some sort of compromise with Phnom Penh. For now, however, he may believe that his negotiating position is growing stronger as Khmer Communist forces become better organized and gain more control over the countryside. If that is his view, then he may also believe that his own interests are best served by a continuation of the war.]

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[Whether negotiations come now or later, Sihanouk's principal interest is in ensuring a key role for himself in determining Cambodia's future. This presumably is why he moved so quickly several months ago to condemn the idea of a "third force" having some part in any Cambodian settlement. This interest also shows in his recent references to his personal role in governing Cambodia in the future—a distinct change from his line in 1970 and 1971 that there was no place for him in Cambodia after victory was won.]

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[] Japan's newly elected prime minister is not likely to call for any radical departures in policy. Kakuei Tanaka brings to the ruling Liberal Democratic Party a new image of youth and decisiveness. He is, however, a moderate deeply rooted in the nation's postwar conservative political tradition. His colorful and assertive style nevertheless may accelerate changes already under way in Japan, including the move toward normalization of relations with Peking.

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[] The new prime minister will maintain friendly relations with the US in the context of the US-Japan Mutual Security Treaty, and he has also expressed strong interest in promoting economic cooperation with the USSR. Tanaka's inexperience in foreign affairs may prompt him to

New Prime Minister



delegate much of the responsibility in this area to the several former foreign ministers in the ruling party who were among his chief supporters.]

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[] It is in the realm of economic policy and domestic welfare programs that Tanaka probably will be most active and decisive, having already served effectively as finance minister and, until his election as prime minister, as minister of international trade and industry. His long-standing experience in domestic problems is in fact the basis for his unusually broad popularity. The party's younger members in the Diet, who were restive under the traditional party gerontocracy, hope that Tanaka's popularity and interest in bread-and-butter issues will help them hold their seats in the next parliamentary election.]

] Tanaka's selection as leader meets the Liberal Democratic Party's need to dispel its reputation for being unresponsive to the people's demands and should help stem its decline in urban areas. The new prime minister could have difficulty meeting the expectations of his youthful supporters, however, in view of the heavy reliance upon consensus in the Japanese decision-making process and the strong influence exerted by the powerful and conservative bureaucracy. []

KOREA: HOPE AND CAUTION

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[] The agreement between North and South Korea, reached in secret talks and made public on 4 July, is a major step toward easing tensions, but Seoul clearly intends to move cautiously on fundamental political problems affecting the two countries. The text of the communique indicates that Seoul has resisted Pyongyang's efforts to move the next round of negotiations to broad political issues. The communique treats political unification only in general terms and focuses specifically on less-controversial humanitarian, economic, and cultural matters. South Korean leaders will almost certainly insist on tangible

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servative elements, particularly within the military, that it is exercising caution. The government must also move to curtail expectations about where the talks will eventually lead. Both Prime Minister Kim Chong-pil and CIA Director Yi have tried to scotch speculation that the agreement will mean unification in the near future by stressing the need for continued vigilance.

There will be increased pressure on Seoul now to lift some of the emergency measures and anti-Communist laws directed at protecting the nation against North Korean subversion and aggression. The opposition is calling for an end to the emergency situation, and Yi's remarks indicate the government may be prepared to give ground on this score. The announcement will also have significant implications for the Korean question at the UN, where both sides will endeavor to use the talks to buttress their positions. In addition, Seoul's public acceptance of the principle of non-interference will be used by the North to press for accelerated US withdrawal.

progress in these areas before committing themselves to substantive political discussions.

The agreement makes no mention of a future summit meeting between Kim Il-sung and President Pak Chong-hui, which the North Koreans have been seeking. It also fails to specify the duties, membership, and responsibilities of the coordinating committee set up under the agreement. South Korean CIA Director Yi Hu-rak implied in his press conference following the announcement, however, that the committee's work would in part be devoted to the less-controversial questions.

The announcement will nevertheless cause some political difficulties for the South Korean Government. Opposition politicians are strongly objecting to the fact that the agreement was made without prior consultations with the legislature. After 20 years of describing Pyongyang as the epitome of evil, Seoul will need to reassure con-

In the tightly controlled society of North Korea, Kim will face far fewer problems in writing off two decades of hysterical propaganda directed against the South. The North Koreans took steps before the announcement to prepare party leaders on how to explain these developments to cadre and the general population. A plenum of the party central committee that opened on 1 July focused exclusively on the reunification question. In his opening report, Kim Il-sung almost certainly provided details on the talks and guidance on handling the matter.

In the international sphere, Kim hopes to derive additional prestige and diplomatic recognition from the dialogue with the South. Japanese Government officials, for example, have already indicated that the talks could have some effect on Tokyo's attitude toward North Korea.

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USSR STRENGTHENS TIES WITH SYRIA

42 [Moscow is continuing to strengthen its ties with Syria by expanding military aid and maintaining a high level of economic assistance. The USSR has become almost the sole supplier of Syrian military equipment and, during Soviet Defense Minister Grechko's visit to Damascus in May, Moscow agreed to provide substantial amounts of new military materiel.]

Communist Military Deliveries January 1956 - June 1972

	Number Delivered
Land	
Medium tanks	1,200
Light tanks	33
Self-propelled assault guns	150
Personnel carriers	700
Naval	
Minesweepers	2
Motor torpedo and missile boats	22
Aircraft	
Light jet bombers	6
Jet fighters	357

46 [By the end of 1971, the USSR had committed some \$850 million of aid to Syria, at least \$580 million for military equipment and \$235 million for economic assistance. The level of military aid, more than half of which was delivered prior to the Arab-Israeli war of June 1967, makes Syria the fourth-ranking recipient of Soviet arms aid. Moscow's military presence in Syria also includes 800 military advisers. Although some 1,700 Syrians have received military training in the USSR, they will not be able to operate some of the more complex weapons recently introduced, and a large contingent of Soviet advisers will continue to be needed.]

42 [The USSR is also Syria's principal source of foreign capital for economic development. Since 1957, Moscow has provided credits for railroad construction, petroleum exploration, a fertilizer plant, and several other small projects. A \$133 million credit was extended in 1966 for construction of the Euphrates Dam. This credit is

being rapidly utilized and some 1,000 Soviet technicians are working on the project; construction is probably proceeding at peak levels.

As this project nears completion, the Soviet Union is likely to come forth with new assistance, some of which may be provided under the economic and technical assistance agreement signed in February. Although no new credits or additional project allocations were announced then, technical studies are under way for several light industrial projects that are emphasized in Syria's 1971-75 development plan. President Asad may request additional aid for these projects during his current visit to Moscow. The Soviets, in turn, are likely to urge the Syrians to sign a friendship treaty similar to those concluded with Egypt, Iraq, and India.

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Yemen (Sana)

US RELATIONS RESUMED

☐ The Sana government and the US re-established diplomatic relations on 1 July, making Yemen (Sana) the first Arab state to restore relations severed at the time of the Arab-Israeli war in 1967. The US has been represented in Sana since May 1970 by an interests section in the Italian Embassy.

☐ The moderate Sana government has made progress in healing the wounds left by the republican-royalist civil war of 1962-70, but the country of six million people is still beset by tribal and Muslim divisions and has serious economic problems. Sana's relations with Yemen (Aden) have been tense because of recurring border incidents.

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France

AFRICAN ACCORDS UNDER PRESSURE

49 [Pressure on France is surfacing among its client states in black Africa to renegotiate the 12-year-old cooperation accords that govern their working relationship. The specific changes being sought are unclear, but France is basically receptive toward discussions.]

49 [Mauritania and Cameroon, whose independent-minded presidents collaborate closely, appear to be spearheading the growing chorus for revising the accords. Mauritania publicly called for a bilateral review of the accords last month. Cameroon and Niger reportedly have lodged private requests with Paris, and Congo President Ngouabi made a similar pitch in his talks with Pompidou in March. The new Malagasy Government may be next to follow suit.]

49 [The cooperation accords France concluded in 1960 and 1961 with 14 of its newly independent ex-colonies south of the Sahara provide the legal basis for continued French hegemony in black Africa. They spell out a broad range of relationships in the areas of diplomacy, economics, culture, and defense, and in effect give Paris a veto over policies contrary to its interests in Africa.]

49 [The Africans are increasingly uncomfortable with the paternalistic accords. Mauritania and

Cameroon, at least, appear to be pushing for an across-the-board revamping of the provisions.]

However, no French-speaking African leader is known to be seeking drastic changes that could jeopardize needed French assistance. On the whole, the Africans, for compelling domestic reasons, probably want changes in language that would give the appearance of greater control over their affairs. Still, more substantive alterations may be demanded in monetary and military relationships to reduce their galling neo-colonial character.]

[France perhaps has concluded that some revision of the basic accords is inevitable. The new French ambassador to Cameroon, for example, has been instructed that renegotiating the Franco-Cameroon accords will be his first priority. In any case, Paris can be expected to try to accommodate the desire for greater independence but not to compromise its interests in areas of vital concern.]

☐ Mauritania, buttressed by aid offers from Algeria and Libya, could provide an early test of intentions on both sides. Even if a new pattern

or Franco-African cooperation evolves, however, the underlying restlessness of French black Africa is unlikely to diminish.

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France

TRIUMPH FOR ORTHODOX GAULLISTS

50 [After months of speculation and debate, President Pompidou has finally ousted Prime Minister Chaban-Delmas and replaced him with Gaullist purist Pierre Messmer. The move is designed to placate hard-line Gaullists and unite bickering factions before the national parliament elections next year. The success of the opposition Communist and Socialist parties in forging a common program for governing may have helped convince Pompidou that the time for healing Gaullist internal wounds was growing short.]

50, 51 [Messmer is one of those who threw his lot in with De Gaulle when the Free French rallied in 1940. Unwavering loyalty to and lengthy service with the general have given Messmer impeccable credentials with orthodox Gaullists. A competent colonial administrator early in his career, Messmer was named defense minister in 1960 and served until De Gaulle resigned in April 1969. In that capacity, Messmer presided over France's withdrawal from the integrated command structure of NATO and over the build-up of the nuclear strike force—a force he regarded as vital to France's independence and its claim to world power status. Although he was excluded from early Pompidou cabinets, his ties with the right wing of the party enabled him to exert influence over government decisions. His appointment as minister of state for overseas departments and territories in 1971 was interpreted as a sop to disgruntled party militants who believed Pompidou had strayed too far from the traditional path.]

50, 51 [The government has suffered a number of reverses in the past six to eight months, and Chaban-Delmas, who earlier had great success in keeping labor peace and cultivating centrist support, became the scapegoat. His policies were always too liberal for the conservative majority. Finally, unfavorable publicity over his tax re-

turns, coupled with financial scandals implicating some Gaullists and the unenthusiastic reception given the referendum on EC enlargement, buttressed arguments of the hard liners that Chaban-Delmas would be an election liability.]

50, 51 [Preventing substantial losses in the elections, which must be held by next March, was the key factor in Pompidou's cabinet changes. He sees Messmer as the man to bring those orthodox Gaullists who deserted in the referendum back into the government fold. Moreover, Chaban-Delmas' failure to deliver the vote of many pro-European centrists in that referendum boded ill for his ability to win those same votes in the election. Pompidou may also have reasoned that the centrists, shut out from an opposition role by the Communist-Socialist accord, would be forced in any case to throw in their lot with the Gaullists.]

50, 51 [The new cabinet, to be announced today, will probably be more Gaullist in character. Defense Minister Debre will remain in his post and some others in the cabinet may merely be shifted to different positions. There is still speculation that Edgar Faure, a left-leaning Gaullist with considerable political skills, may be included to give added impetus to the coalition.]

50 [Messmer's attitude toward the US is highly colored by his traditional Gaullist views. He is closely identified with two organizations that are strongly nationalistic and anti-US in flavor. One, which he heads, is the "Presence of Gaullism" movement, formed to keep successor governments in the Gaullist mold. The other, the chauvinistic Movement for the Independence of Europe, rejects the idea of a partnership with the US.]

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SWEDES SCORE US POLICY

70 Prime Minister Palme's attack on US actions in Vietnam at last week's meeting of the Socialist International continued a campaign his government has been waging for almost two months. Criticism of the US is a tactic Palme uses to divert attention from domestic problems and to placate the Swedish left.

71 Swedish Education Minister Carlsson began the propaganda offensive on 17 May when he participated in the Swedish Vietnam Committee's march on the US Embassy in Stockholm. Carlsson addressed the demonstrators, calling Vietnam "only one" example of US efforts to dominate others. Despite the government's explanation that Carlsson was only participating in his capacity as a member of the committee, subsequent developments indicate that his speech was part of a coordinated campaign.

72 On 23 May, Foreign Minister Wickman told parliament that the North Vietnamese invasion of the South was simply another example of cooperation between liberation movements in Vietnam.

He claimed that US "intervention" was directed against all Vietnamese people and thus it was unreasonable to compare the North Vietnamese Army's presence in South Vietnam with the US presence there.

73 The fact that Sweden hosted the UN Environmental Conference did not prevent Palme from criticizing the US in his address to that group on 6 June. A US State Department protest over Palme's statements failed to deter government criticism. The return of Swedish Ambassador Oeberg from Hanoi in mid-June triggered further allegations of US excesses in North Vietnam. Oeberg told newspaper and TV interviewers that US bombing of the North had severely damaged dikes and dams, which may bring massive flooding during the coming rainy season.

74 Palme's strongly anti-American speech at the Socialist International Congress in Vienna last week shocked some of the other Socialist leaders present. West German Chancellor Brandt, in a



Palme (L.) with Socialist International President Pittermann

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response to Palme, remarked that "anti-Americanism is often a hidden excuse for our own failures." Brandt's observation may, indeed, explain some of the Swedes' recent condemnation of the US.

The economic slump that hit Sweden last year threatens to continue through the year. Unemployment, which peaked last winter, has declined only slowly, and remains higher than last year at this time. Consumer prices rose 6.8 percent between May 1971 and May 1972, and further increases in the already high cost of food went into effect on 1 July. Housewives demonstrated against high prices last winter and the government probably fears further demonstrations.

In the 1970 election, the Social Democrats lost their absolute majority, with many of their former voters turning to the Communists. Seemingly unable to cure rising prices and unemployment, Palme hopes to regain votes by coming down hard on Vietnam while the issue is still hot, and establish a record that will benefit his party in next year's election.



Tito and Gierk

A number of economic agreements, some of which were signed during the visit, are responsible for this friendliness. They call for the promotion of industry-to-industry cooperation, increased settling of accounts with hard currency, and a large boost in exports of Yugoslav rolling stock to Poland. Warsaw also announced that it will double the funds to be allocated for Polish tourism to Yugoslavia.

POLES ENTHUSIASTIC ON TITO VISIT

Officials in Belgrade and Warsaw are pleased with the impetus that President Tito's recent visit to Poland has given to bilateral economic and political relations.

Warsaw media have taken their lead from Moscow's reception of Tito in early June. Commentary in the Polish press has been lavish—a far cry from Poland's characterization of Yugoslavia in late 1969 as the worst threat to socialism. The Polish weekly *Literatura* on 30 June published one of the warmest accounts yet to come from the bloc, praising Tito and the Yugoslav leadership for their "courage of thinking, boldness of experimentation, and creativity" in the development of Yugoslavia.

Thus, in the span of a few weeks, Yugoslavia's relations with Poland have come to be better than with any other CEMA country. Although the volume of bilateral trade still ranks behind Yugoslav trade with the USSR and Czechoslovakia, prospects seem bright. In view of Poland's past reluctance to make anything but token payments in hard currencies, Warsaw's decision to increase convertible currency payments is the most striking example of the new trend. Furthermore, additional industry-to-industry contracts are expected before the end of the year, including Polish production of parts for Yugoslavia's "Zastava" automobile.

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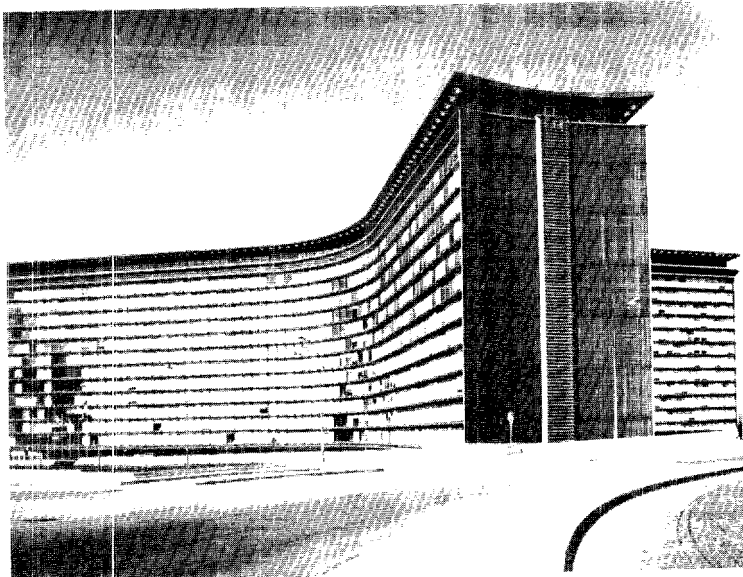
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EC DEBATES MEDITERRANEAN POLICY

74 [The European Communities has embarked on a policy review that will have important consequences for European influence in the Mediterranean area and for the position the US has traditionally taken toward trade preferences. The study arose from the need to adapt the preferential agreements that the EC already has with many countries in this area to take into account the community's impending enlargement. Unless these agreements are revised, the Mediterranean countries concerned stand to lose established markets when Britain and the other candidate members begin to apply the community's higher import restrictions.]

75 [The community is agreed in principle that the trade position of its Mediterranean associates should not be impaired by enlargement, and that if it is, the EC may have to pay compensation. Because the Italians and French fear increased competition from various Mediterranean agricultural exports, however, the Six have been unable to agree to more than a relatively small number of concessions on individual products.]

EC Headquarters in Brussels



75 [As an alternative, the French early last month proposed the formation of industrial free-trade areas in the Mediterranean, beginning with Spain and Israel. The proposal is in keeping with French interest in tying Spain closer to the community, and the mention of Israel was presumably intended to buy off any Dutch objections to doing more for Spain. Negotiations on free-trade arrangements would presumably be long, and could be used in the meantime to argue against granting Spain and Israel the unilateral preferences they want under the EC's scheme of generalized preferences for less-developed countries.]

75 [Although it is unlikely that any "global" arrangements could be worked out in time to come into being along with enlargement next year, the EC Commission has been requested to submit ideas on such an approach at an early date, along with further suggestions about coping with the immediate problem of updating the existing agreements. The commission will have to consider how, in lieu of substantial agricultural concessions, it could make industrial free trade arrangements palatable to the Mediterranean countries. One such inducement might be economic and financial aid, which the EC is now considering including in its future arrangements with the Maghreb countries and Malta.]

74 [The revival of discussions on a community policy toward the Mediterranean reflects the growing European interest in the Mediterranean basin and concern over the recent gains Moscow has made there. Increased European aid and investment could be a stabilizing influence. On the other hand, to link the Mediterranean countries with the EC in industrial free-trade areas would pose a dilemma for US trade policy. The US contends that the present preferential agreements, which give only partial trade coverage, violate GATT criteria. The wider coverage of the free-trade schemes, however, could have a greater adverse impact on US trade than the present limited arrangements.]

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INTERNATIONAL MONETARY DEVELOPMENTS

77 [Renewed speculation against the dollar, which has followed on the heels of a weakening British pound, has prompted an increasing array of capital controls abroad. During the first few days of resumed activity in the major foreign exchange markets after the pound was floated, the dollar held firm as short-sellers sought dollars to cover their positions. In the first three days of this week, however, foreign central banks—notably those of West Germany, Japan, Switzerland, and the Netherlands—were forced to absorb about \$1.5 billion to support the dollar at its Smithsonian exchange-rate floors. Continued large inflows of dollars are especially unwelcome in these countries because of their rigorous efforts to bring inflation under control.]

78 [A growing number of countries are unwilling to undertake another round of floats leading to de facto revaluations against the dollar at a time when they are just emerging from a recession. As a result, they are turning to more restrictive controls to curb the inflow of speculative capital. During the past ten days, Berne, Tokyo, and Rome have instituted more stringent controls, and Bonn, a traditional opponent of such measures, is following suit. Meanwhile, France and Belgium continue to operate their dual-exchange market systems that isolate commercial transactions from the effects of short-term capital movements.]

79-83 [Each country is implementing its own type of controls over capital flows. Swiss authorities have banned non-resident purchases of Swiss securities or property, and have directed commercial banks to levy two percent quarterly charges on all new deposits of US dollars. Tokyo raised the mandatory reserve requirements on increases in non-resident free yen balance from 25 to 50 percent. It also reduced the maximum value from \$10,000 to \$5,000 of advance export bills

that may be converted to yen without special approval from the Ministry of Finance. Rome has suspended convertibility of non-resident - held lire banknotes into foreign currencies and has required commercial banks to surrender most foreign currency received as pre-payment of outstanding bank loans.]

84 [Perhaps the most noteworthy of all the new capital controls has been the decision by the West German Government—over the vigorous objections of Economic and Finance Minister Schiller—to require Bundesbank approval for the sale of fixed-interest securities to foreign investors. This controversial action reportedly prompted Schiller to tender his resignation from the government. Schiller's resignation would ease the way for the adoption of even stiffer controls.]

78 [Sterling area countries in the Far East are increasingly pegging their currencies to the US dollar. Last week, Singapore decided to break with the pound, in part to protect itself against higher import costs that would arise if its currency were allowed to float downward with the pound. Malaysia and Brunei also switched to the dollar because of their close financial ties with Singapore. After floating with sterling for the last few weeks, Hong Kong has returned to its former fixed rate with the dollar. The Crown Colony had been considering a break with sterling for several months. For Australia, the British move was a vindication of Canberra's decision last December to stop pegging its currency to the pound. The downward float of the pound is likely to ease somewhat the revaluation pressure that has been felt by the Australian dollar in the wake of Australia's mounting reserves and widening trade surpluses. Of all the Far East sterling countries, only New Zealand remains tied to sterling.]

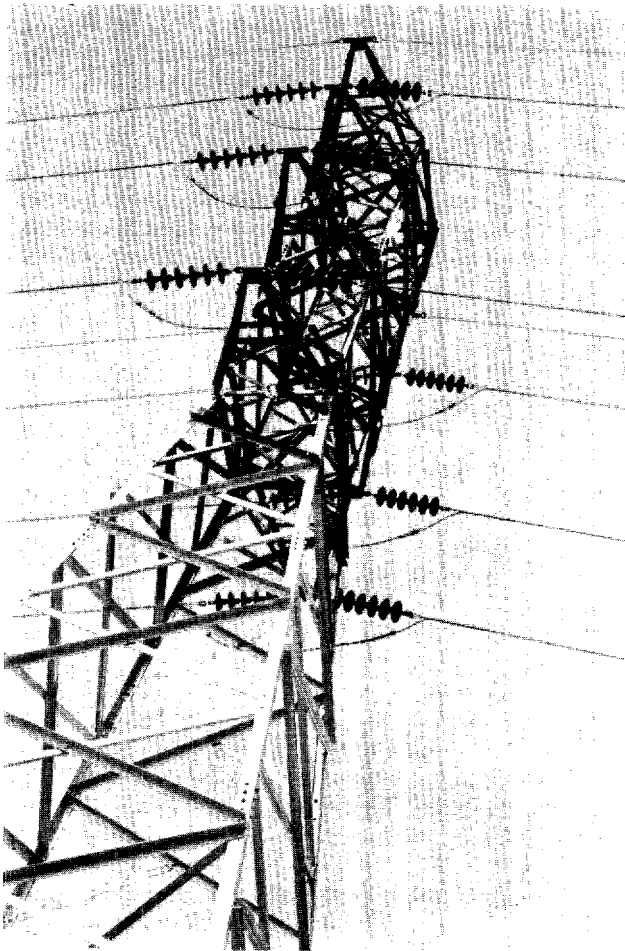
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PANAMA: THE SQUEEZE PLAY

86. [The moment of truth arrived last week when the 30-day government take-over of the US-owned power and light company was due to expire. Instead of returning the facilities to corporate control, the Torrijos government—in a dramatic reversal of position—broke off negotiations for a new contract governing the company's operations and committed itself to buy or expropriate the utility.]



87. [The original take-over came as a result of a running quarrel between the government and the company over rates and finances. In mid-June, senior Panamanian officials met with officers of Boise-Cascade, the parent company, and there were grounds for optimism when the latter orally agreed to meet Panamanian conditions for ending the occupation of the company. Negotiations subsequently bogged down when Panama demanded that the company agree to a sizable five-year investment program but would not guarantee the company adequate profits to finance such a program.]

88. [The new decrees have extended the occupation for an additional 60 days, authorized the government to acquire all of the company's assets, and provided for expropriation if agreement on purchase price and form of payment is not reached within that time period. Presumably there would be compensation for the expropriation.]

89. [President Lakas and the more business-oriented members of the government, worried about possible effects on private investment, had argued against expropriation. Also they characterized acquisition of the company as a costly diversion of the government's slender financial resources. Nevertheless, as press and public support of the take-over grew, it became increasingly difficult for Torrijos to back down. Torrijos apparently believed that international capital markets would share the relatively mild reaction of the domestic business community. He was interested in overcoming popular apathy about next month's legislative elections and in drumming up additional support for his regime. The power and light company, long the focus of public discontent, was a convenient foil, and economic considerations quickly took a back seat to political expediency.]

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CHILE: MORE PULLING AND HAULING

81 Pulling and hauling among Chilean political groups continues unabated, and infighting in the governing Popular Unity coalition is becoming more apparent in nearly every area. This situation is probably behind President Allende's failure to announce sweeping new economic policies that he promised three weeks ago.

81-71 In the broader political spectrum, a shift in Christian Democratic tactics convinced Allende to withdraw his vetoes of the opposition's legislation to limit further economic nationalization. The Christian Democrats also joined an opposition move to impeach Interior Minister Del Canto. Party legislators had warned that the earlier conciliatory attitude toward the government was likely to cost public support. This could be significant at a time when the other opposition parties seem to be cooperating more among themselves. Even the moderate Radical group that broke recently from the Popular Unity—and with which the Christian Democrats had hoped to form a leftist opposition force—appears to be seeking an accommodation with more conservative parties. These discussions, like those among all political groups now, concern the form and extent of party combinations in preparation for congressional elections next March.

90, 91 Electoral cooperation is a matter of contention within the Popular Unity. There, the Communists are apparently ready to humor the small parties' desire for combined slates while the Socialists oppose them. Press reports suggest that the Socialists are also lagging in support of the coalition's Communist candidate in the legislative by-election set for 16 July. Many of them already view elections as not only outmoded but also as an unnecessary risk to the coalition, and this attitude is being strengthened by the lack of unity within their own party. Socialist leaders may fear that their claim to primacy in the coalition as its top vote-getter is in jeopardy.

Continuing difficulties with labor are both an economic and political problem for Allende



Santiago

and a reflection of persistent coalition rivalries. The frequent strikes lower productivity and are ammunition for the opposition. Worker dissatisfaction at the largest copper mine and disagreement over the results of the Trade Union Confederation elections in May are good symptoms of coalition wrangling. The Communists will win a plurality in the confederation vote, but the Socialists' claim to second place is threatened by the

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89 surprisingly large Christian Democratic showing. The Communists value highly their dominant influence in the confederation and resent the Socialists' challenge.

88 [Although coalition infighting is cropping up in many areas, there is no reason so far to believe that the Communists and Socialists will not be able to work out their differences as they have before in their long years of uneasy alliance.]

nation in response to criticism of his testimony. Bordaberry, by underscoring his confidence in Magnani in a meeting this week with military commanders, has indicated that he will not accept the resignation. After the storm blows over, however, the President may make several changes in key military assignments; such a move now would be interpreted as a vote of no confidence in the military leadership.

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Uruguay

LEGISLATORS FOCUS ON MILITARY

[As President Bordaberry gets closer to securing passage of the national security law, Uruguayan politicians are concerned about the increased political power this act grants to the military. Several legislators have voiced their fear that the military will not find it possible to retreat from the forefront of government and resume its traditional apolitical role.]

[After three months of negotiations, the Senate has approved a compromise version of Bordaberry's proposal to give the military judicial authority over suspected terrorists. In exchange for gaining military jurisdiction over civilians, the government has agreed to move against right-wing "death squads" by making it a federal offense for private citizens to conspire to take the law into their own hands. The bill probably will pass the Chamber of Deputies before 22 July, the new termination date for the "state of internal war."]

[Operating under the "state of war" provisions since 15 April, the military has made substantial inroads on the Tupamaro organization, but some of its methods have provoked criticism. Defense Minister Magnani has been under fire in the Senate because of the recent death of a Tupamaro suspect during military interrogation. Although a censure motion on 22 June failed to carry, Magnani reportedly has submitted his resig-

ECUADOR: WELL-OILED CONFUSION

[Issues raised by the petroleum decree promulgated on 6 June remain a source of confusion to administration and industry officials alike. The decree retroactively applies the highly restrictive Hydrocarbons Law of October 1971 to all existing oil company contracts. Compounding the confusion is the failure to resolve other issues between the government and the oil companies, such as an export tax schedule, the reference price per barrel of crude oil, and the government-industry splitting of profits.]

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[Much of the confusion is attributable to the new government's inexperience and its continuing reorganization of the administrative structure. The establishment of a Ministry of Mining and Petroleum to perform functions previously performed by an office in the Ministry of Natural Resources may help to give the government increased confidence, although strong competition for the powerful new cabinet post is bringing political complications to an already complex economic problem. Meanwhile, Texaco-Gulf is almost ready to begin crude oil exports. It has committed \$300 million in Ecuador, and government officials have formally opened the 318-mile Trans-Andean pipeline. The government's waiver of its own requirement that the first oil shipment be carried in an Ecuadorean ship has contributed to a slight easing of tensions.]

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CASTRO COMES HOME



[redacted] Fidel Castro finally returned to Havana on 6 July after a 65-day journey through Africa and Eastern Europe. His last stop, a ten-day stay in [redacted] the USSR, was marked by a show of cordiality and friendship as both sides sought to make the Cuban premier's first visit to the Soviets in eight years a success. Despite the atmospherics and some indication of further Soviet economic aid, no significant new agreements were announced.]

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[The final communique noted that the meetings and talks were held "in an atmosphere of deep mutual understanding and unity of viewpoints," and marked the beginning of a new and important stage in Soviet-Cuban relations. In an interview on Soviet radio and television, the Cuban leader praised the atmosphere of the talks and claimed that Cuban-Soviet relations had reached their highest level ever. He promised to return to Moscow in 1973 or 1974 for a longer visit.]

[Both sides avoided carping at issues long in contention. In a reception speech, Premier Kosygin expressed "fraternal understanding" for Castro's views on Cuban economic development, although he added a plea for more "coordination" between the two countries. For his part, Castro used several occasions to express support for Moscow's foreign policy line and gratitude for continuing Soviet aid. At a meeting with Soviet military leaders, he spoke confidently about future cooperation between the two countries' armed forces.]

Despite Castro's effusive praise it is unlikely that Moscow was completely successful in assuring the Cuban leader that Havana's security and interests were not undermined by President Nixon's visit to the USSR. While the communique carried joint statements on a variety of international issues, it omitted any direct mention of the summit meeting, noting only that the Soviets "reported" to the Cubans on the contacts. [redacted]

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